FISCAL NOTE

Bill #: HB 0758 **Title:** Oil, gas, and coal natural resource account fund

Primary Sponsor: McNutt, W **Status:** As Amended – House Tax Committee

Sponsor signature Date David Ewer, Budget Director Date

Fiscal Summary

	FY 2006 Difference	FY 2007 Difference
Expenditures:		
General Fund	$0	$0
State Special Revenue	$1,791,090	$1,889,500
Revenue:		
General Fund	($527,906)	($556,911)
State Special Revenue	$1,733,865	$1,829,129
Net Impact on General Fund Balance:	($527,906)	($556,911)

- ☒ Significant Local Gov. Impact
- ☐ Technical Concerns
- ☒ Included in the Executive Budget
- ☒ Significant Long-Term Impacts
- ☒ Dedicated Revenue Form Attached
- ☐ Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

OBPP

1. The general fund revenue estimates in HJR 2 includes the Board of Oil and Gas Conservation (BOGC) tax at 0.26%. Thus, the general fund decrease shown on this fiscal note is already included in HJR 2 general fund revenue estimate.
2. The BOGC oil and gas production tax rate will decrease from 0.26% to 0.18% on July 1, 2005.
3. Proposed law replaces the 0.08% decrease in the BOGC tax rate with a new 0.08% tax on oil and gas production, so projected revenue from the BOGC tax and the new tax on oil and gas production in FY 2006 and FY 2007, under proposed law, will equal 0.26% of the taxable value of production.

Department of Revenue

4. This bill is effective on passage and approval, and applies to oil and gas production occurring after June 30, 2005.
5. This bill creates an oil, gas, and coal natural resource account (the new account) in the state special revenue fund. Revenue for this account comes from the coal severance tax and a new tax on oil and gas production.

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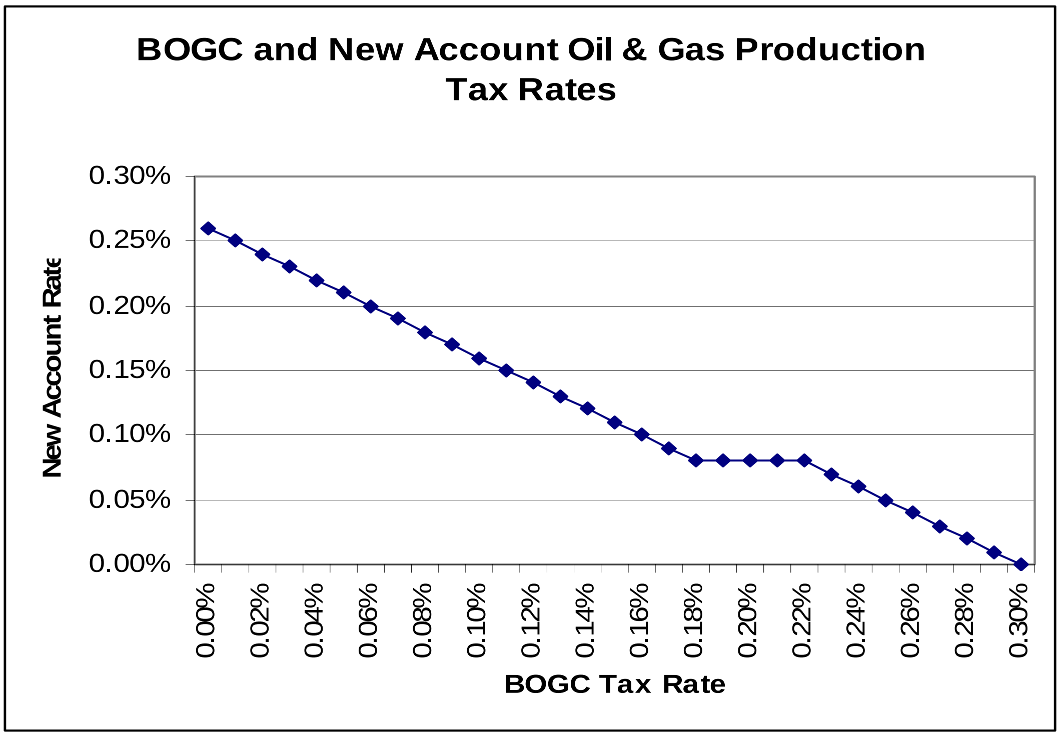
6. Under current law, 7.75% of the coal severance tax goes to the coal severance tax shared account in the state special revenue fund. Under proposed law, 5.02% of the coal severance tax goes to the shared account in the state special revenue fund, and 2.73% goes to the new account.
7. HJR 2 projects $31,602,000 in coal severance tax revenue in FY 2006, and $32,268,000 in FY 2007.
8. FY 2006 coal tax revenue distributed to the new account is $862,735 {$31,602,000*0.0273}.
9. FY 2007 coal tax revenue distributed to the new account is $880,916 {$32,268,000*0.0273}.
10. Coal tax revenue distributed to the coal severance tax shared account is reduced $862,735 in FY 2006, and $880,916 in FY 2007.
11. Under proposed law, a percentage of the taxable value of oil and gas production will be distributed to counties, cities and towns impacted by oil and gas development. This percentage is tied to the Board of Oil and Gas Conservation (BOGC) tax rate, the rate of the license and privilege tax distributed to the Board for their administrative expenses. If the BOGC tax rate is less than 0.18%, the percentage distributed to the new account is 0.26% less the BOGC tax rate. If the BOGC tax rate is greater than 0.22%, the percentage distributed to the new account is 0.30% less the BOGC tax rate. Otherwise, the percentage distributed to the new account is 0.08%. The table below describes the relationship.



12. The BOGC tax rate is assumed to be 0.18% (Assumption 1). Therefore, under proposed law, the corresponding rate distributed to the new account is 0.08%.
13. Under current law, a county receives fixed proportions of the total oil and gas production tax revenue generated within that county. This revenue is statutorily appropriated. After the BOGC tax and the counties allocation are deducted from the total tax revenue, the remainder is divided as follows: 1.23% to the coal bed methane protection account, 2.95% to the reclamation and development grants account, 2.95% to the orphan share account, 2.65% to the Montana university fund, and all remaining proceeds to the general fund.
14. HJR 2 projects $1,507,448,981 in taxable value of oil and natural gas production in FY 2006.
15. HJR 2 projects $1,590,273,519 in taxable value of oil and natural gas production in FY 2007.

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16. Under proposed law, oil and gas tax revenue distributed to the new account in FY 2006 is $1,205,959 {$1,507,448,981*0.0008}.
17. Under proposed law, oil and gas tax revenue distributed to the new account in FY 2007 is $1,272,219 {$1,590,273,519*0.0008}.
18. The table below shows the allocation of oil and gas production tax revenue under current law, and under proposed law.

Oil & Gas Production Tax Allocations

FY 2006	Proposed Law, BOGC = 0.18%, New Tax = 0.08%	Current Law, BOGC = 0.18%, No New Tax	Difference
Total Oil & Gas Production Taxes	$ 135,805,000	$ 134,599,041	$ 1,205,959
Board of Oil and Gas Conservation (BOGC) Tax	$ 2,713,408	$ 2,713,408	$ -
New Account Tax	$ 1,205,959	$ -	$ 1,205,959
Counties Allocation	$ 65,892,586	$ 65,307,455	$ 585,131
Subtotal	$ 69,811,953	$ 68,020,863	$ 1,791,091
Remainder After BOGC and Counties Allocation	$ 65,993,047	$ 66,578,178	$ (585,131)
Total	$ 135,805,000	$ 134,599,041	$ 1,205,959
Accounts Sharing in Remainder			
Coal Bed Methane Protection Account	$ 811,714	$ 818,912	$ (7,197)
Reclamation and Development Grants Account	$ 1,946,795	$ 1,964,056	$ (17,261)
Orphan Share Account	$ 1,946,795	$ 1,964,056	$ (17,261)
University System Fund	$ 1,748,816	$ 1,764,322	$ (15,506)
General Fund	$ 59,538,927	$ 60,066,832	$ (527,906)
Subtotal	$ 65,993,047	$ 66,578,178	$ (585,131)
FY 2007			
Total Oil & Gas Production Taxes	$ 137,095,000	$ 135,822,781	$ 1,272,219
Board of Oil and Gas Conservation (BOGC) Tax	$ 2,862,492	$ 2,862,492	$ -
New Account Tax	$ 1,272,219	$ -	$ 1,272,219
Counties Allocation	$ 66,518,494	$ 65,901,213	$ 617,281
Subtotal	$ 70,653,205	$ 68,763,706	$ 1,889,499
Remainder After BOGC and Counties Allocation	$ 66,441,795	$ 67,059,075	$ (617,281)
Total	$ 137,095,000	$ 135,822,781	$ 1,272,219
Accounts Sharing in Remainder			
Coal Bed Methane Protection Account	$ 817,234	$ 824,827	$ (7,593)
Reclamation and Development Grants Account	$ 1,960,033	$ 1,978,243	$ (18,210)
Orphan Share Account	$ 1,960,033	$ 1,978,243	$ (18,210)
University System Fund	$ 1,760,708	$ 1,777,065	$ (16,358)
General Fund	$ 59,943,787	$ 60,500,698	$ (556,911)
Subtotal	$ 66,441,795	$ 67,059,075	$ (617,281)

19. Because under proposed law the new account tax increases total revenue, and the counties allocation is a percentage of total revenue, the counties allocation increases under proposed law.
20. Because shares going to the coal bed methane account, the R & D grants account, the orphan share account, the university system fund, and the general fund are allocated after the counties allocation has been deducted from total revenue, these shares decrease under proposed law.
21. Under proposed law, total revenue distributed to the new account in FY 2006 is $2,068,694 {$862,735+$1,205,959}.
22. Under proposed law, total revenue distributed to the new account in FY 2007 is $2,153,135 {$880,916+$1,272,219}.

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23. This bill would have no administrative cost impacts on the department of revenue.

Department of Commerce

24. Entities currently receiving funding from the coal severance tax shared account include the Coal Board (local impacts), the State Library, the Conservation Districts program in the Department of Natural Resources and Conservation, and the Growth Through Agriculture program in the Department of Agriculture.
25. Under proposed law, the coal severance tax revenue allocated for local impacts is approximately the amount authorized for local impacts in HB 2 for the 2005 biennium from the coal tax shared account.

FISCAL IMPACT:

	FY 2006 Difference	FY 2007 Difference
Expenditures:		
General Fund (01)	($0)	($0)
State Special Revenue (02)		
Oil & Gas Prod. Tax-Oil, Gas, & Nat Res. Acct.	$1,205,959	$1,272,219
Counties Allocation of Oil & Gas Production Tax	$585,131	$617,281
Revenues:		
General Fund (01)	($527,906)	($556,911)
State Special Revenue (02)		
Coal Severance Tax-Oil, Gas, & Nat Res. Acct.	$862,735	$880,916
Coal Severance Tax-Local Impact Account	($862,735)	($880,916)
Oil & Gas Prod. Tax-Oil, Gas, & Nat Res. Acct.	$1,205,959	$1,272,219
Counties Allocation of Oil & Gas Production Tax	$585,131	$617,281
Coal Bed Methane Protection Account	($7,197)	($7,593)
Reclamation and Development Grants Account	($17,261)	($18,210)
Orphan Share Account	($17,261)	($18,210)
University System Fund	($15,506)	($16,358)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):		
General Fund (01)	($527,906)	($556,911)
State Special Revenue (02)		
Coal Severance Tax-Oil, Gas, & Nat Res. Acct.	$862,735	$880,916
Coal Severance Tax-Local Impact Account	($862,735)	($880,916)
Oil & Gas Prod. Tax-Oil, Gas, & Nat Res. Acct.	$0	$0
Counties Allocation of Oil & Gas Production Tax	$0	$0
Coal Bed Methane Protection Account	($7,197)	($7,593)
Reclamation and Development Grants Account	($17,261)	($18,210)
Orphan Share Account	($17,261)	($18,210)
University System Fund	($15,506)	($16,358)

<u>EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:</u>
The table below illustrates the effect of proposed law on local revenue from the oil and gas production tax in FY 2006, and FY 2007.

Change to Local Revenue Under Proposed Law

FY 2006	Counties / Schools	County Government	Cities / Towns	Total
New Account Tax	$0	$401,986	$803,973	$1,205,959
Counties Allocation	$585,131	$0	$0	$585,131
Total	$585,131	$401,986	$803,973	$1,791,091
FY 2007				
New Account Tax	$0	$424,073	$848,146	$1,272,219
Counties Allocation	$617,281	$0	$0	$617,281
Total	$617,281	$424,073	$848,146	$1,889,499

The increase in revenue to counties and schools from the counties allocation of the oil and gas production tax will be $585,131 in FY 2006 and $617,281 in FY 2007. The increase to county government from the new tax on oil and gas production will be $401,986 in FY 2006 and $424,073 in FY 2007. The increase to city government from the new tax will be $803,973 in FY 2006 and $848,146 in FY 2007. The total increase to local revenues will be $1,791,091 in FY 2006 and $1,889,499 in FY 2007.

<u>LONG-RANGE IMPACTS:</u>
The new account tax on oil and gas production will be in place whenever the BOGC rate is less than 0.30%. Counties with oil or gas production, and cities and towns within those counties, will receive benefit from the new account tax. Because the new account tax raises the total tax on production, and the counties allocation is a percentage of the total tax on production, the counties allocation will increase whenever the new account tax is in place. Because of this increase in the counties allocation, revenue to the general fund will decrease whenever the new account tax is in place.

DEDICATION OF REVENUE:

a) Are there persons or entities that benefit from this dedicated revenue that do not pay?

Yes. The beneficiaries are the counties, cities, and towns impacted by oil and gas production. The taxpayers are the oil and gas producers within those counties.

b) What special information or other advantages exist as a result of using a state special revenue fund that could not be obtained if the revenue were allocated to the general fund?

Because the fund is statutorily appropriated, the impacted counties will have guaranteed access to a percentage of the oil and gas production tax.

c) Is the source of revenue relevant to current use of the funds and adequate to fund the program activity that is intended?

The source of the funds is relevant to the use of the funds, but may not be adequate.

d) Does the need for this state special revenue provision still exist?

Yes. The impacted counties would be challenged to compete with the other general fund priorities.

e) Does the dedicated revenue affect the legislature's ability to scrutinize budgets, control expenditures, or establish priorities for state spending?

No. The revenue generated from this tax is new revenue and will not constrain the legislature relative to current law.

f) Does the dedicated revenue fulfill a continuing, legislatively recognized need?

Yes. The needs of counties impacted by oil and gas production have been recognized and will continue to be recognized by the legislature.

g) How does the dedicated revenue provision result in accounting/auditing efficiencies or inefficiencies in your agency? Also, if the program/activity were general funded, could you adequately account for the program/activity?

The dedicated revenue provision does not cause accounting/auditing efficiencies or inefficiencies. The program activity is currently limited by the amount of tax collected. If the program were general funded, the relationship between the tax revenue and the program expenditures would be lost.